



0000082505

BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman

JEFF HATCH-MILLER
Commissioner

WILLIAM A. MUNDELL
Commissioner

KRISTIN K. MAYES
Commissioner

GARY PIERCE
Commissioner

Arizona Corporation Commission

DOCKETED

MAR 10 2008

DOCKETED BY

nr

IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY, INC.,
AN ARIZONA CORPORATION, FOR
AUTHORITY TO IMPLEMENT ARSENIC
COST RECOVERY MECHANISM FOR ITS
SAN MANUEL SYSTEM IN ITS EASTERN
GROUP

DOCKET NO. W-01445A-02-0619

DECISION NO. 70191ORDER

Open Meeting
February 28, 2008
Phoenix, Arizona

BY THE COMMISSION:

INTRODUCTION

Pursuant to Decision Nos. 66400 and 66849, Arizona Water Company ("Company", "Applicant" or "AWC") filed an application on September 4, 2007, with the Arizona Corporation Commission ("Commission") requesting authorization to implement Step One of the Arsenic Cost Recovery Mechanism ("ACRM") for its San Manuel Water System in its Eastern Group.

AWC requests a Step-One ACRM surcharge of \$4.51 on the monthly customer charge and \$0.5026 per 1,000 gallons on the commodity rate for San Manuel. The Company estimates (based on 8,407 gallons used on the 5/8-inch meter), the average residential customer bill would increase by approximately \$8.73 from \$34.27 to \$43.00 (25.5 percent).

On January 23, 2001, the Environmental Protection Agency ("EPA") reduced the drinking water maximum contaminant level of arsenic from 50 parts per billion ("ppb") to 10 ppb. All

...

community water systems and non-transient non-community water systems need to comply with the new federal rule by the January 23, 2006 deadline.

In August 2002, AWC filed an application with the Arizona Corporation Commission for a rate increase in its Eastern Division. The rate application included a request for an ACRM for AWC's Eastern Group that conforms with the ACRM authorized in Decision No. 66400 (October 14, 2003) for its Northern Group. On March 19, 2004, the Commission issued Decision No. 66849 approving an ACRM for the Eastern Group.

On September 4, 2007, AWC filed an application to implement Step One of its ACRM for its San Manuel Water System. In conformity with Decision Nos. 66400 and 66849 AWC seeks a surcharge to recover a return on its arsenic remediation investment, depreciation expense and related income taxes. The Company is not seeking recovery of new or additional Operating and Maintenance expenses at this time.

Authorization for an Arsenic Cost Recovery Mechanism (Decision Nos. 66400 and 66849)

Decision Nos. 66400 and 66849 conditioned approval of an ACRM surcharge on the following criteria:

1. AWC shall file the schedules to show the actual cost of construction of arsenic related facilities and that the projected rate of return with the ACRM does not exceed authorized levels. AWC shall also file any relevant data requested by Staff to support the ACRM increase.
2. AWC shall file a full rate application no later than September 30, 2007, based on a 2006 test year.¹
3. AWC shall identify as a separate line item on customer bills the charges attributable to federally mandated arsenic reduction costs. At least four times annually, the bills shall include in bold print or distinguishing ink color that the ACRM costs are the result of federal mandates by the United States Environmental Protection Agency.
4. The ACRM schedules provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return exceeding that authorized in Decision No. 66849.

¹ A Procedural Order, dated December 29, 2006, subsequently revised this condition to reflect a filing date no later than September 30, 2008 and a test year ending December 31, 2007.

On November 20, 2007, RUCO filed its report on its audit of AWC's San Manuel Water System Step-One ACRM surcharge request. RUCO recommends adoption of the Company's application as filed.

Staff Analysis

ACRM Filing Requirements

Decision No. 66400 requires AWC to file ten schedules as follows: balance sheet, income statement, earnings test, rate review, arsenic revenue requirement, surcharge calculation, adjusted rate base schedule, construction work in progress ledger, three-factor allocation and typical bill analysis.

AWC filed the following schedules for the San Manuel Water System:

1. Balance Sheet – a balance sheet for its San Manuel Water System which is the most current balance sheet at the time of the filing - June 30, 2007.
2. Income Statement – a most current income statement for its San Manuel Water System - period ending June 30, 2007.
3. Earnings Test Schedule – an “Earnings Test” schedule for the twelve months ending June, 2007 for its San Manuel Water System.
4. Rate Review Schedule – a San Manuel Water System schedule including the effects of the proposed increase.
5. Arsenic Revenue Requirement Calculation – a San Manuel Water System arsenic revenue requirement calculation for step one.
6. Surcharge Calculation – separate, detailed surcharge calculations for both the Minimum Charge and Commodity Charge for the San Manuel Water System.
7. Adjusted Rate Base Schedule – a San Manuel Water System schedule showing the effects of the arsenic plant investment.
8. Construction Work In Progress (“CWIP”) Ledger – a ledger showing the arsenic construction work in progress accounts for the San Manuel Water System.
9. Three factor allocation schedule – a schedule showing the factors attributable to all the districts within the Eastern Group.
10. Typical Bill Analysis – ACRM Step 1 – A separate typical bill analysis showing the effects on residential customers at the average residential usage for the San Manuel Water System.

Staff performed an examination of AWC's San Manuel Water System Step-One ACRM surcharge filing for the San Manuel Water System and concludes that it conforms to the requirements specified in Decision Nos. 66400 and 66849.

The ACRM schedules, as filed, provide for the calculation of a surcharge based on financial records and an Earnings Test Schedule that limit the ACRM surcharge revenue to an amount that would not result in a rate of return on the San Manuel Water System that would exceed that authorized in Decision No. 66849.

Examination of Company Schedules and Utility Plant in Service

Staff's examination of the Company's posting of amounts to the CWIP ledger showed that the postings accurately reflect the Company's records, reconcile to the invoices submitted and are mathematically correct.

Staff performed a field inspection and verified that the San Manuel Water System's arsenic treatment facilities related to the Step 1 ACRM surcharge request are in service and providing water that meets the new arsenic standard.

Recommendations

Staff recommends approval of the ACRM surcharges presented on Schedule DRR-1.

Staff further recommends that the Company file with the Commission an arsenic removal surcharge tariff consistent with ACRM Schedule DRR-1.

Staff further recommends that Arizona Water San Manuel Water System notify its customers of the arsenic cost recovery surcharge tariff approved herein within 30 days of the effective date of this Decision.

Staff further recommends that in the event that the Applicant fails to file a permanent rate application for its Eastern Group by September 30, 2008, based on a 2007 test year, the Arsenic Cost Recovery Mechanism surcharge then in place shall be automatically discontinued.

Commission Discussion

Based on discussions at the February 12, 2008 Open Meeting, we will modify Staff's first three recommendations by requiring Arizona Water Company to implement its ACRM in two phases. Phase One would implement a monthly minimum ACRM charge of \$4.51 for 5/8" x 3/4"

1 meters (larger meter sizes have larger increases as shown on the attached Phased in ACRM
2 Schedule DRR-1) on March 1, 2008.

3 Phase Two would begin on October 1, 2008, with a combination of charges. The basic
4 Phase Two ACRM would add a charge of \$0.5026 per 1,000 gallons to the existing \$1.7040
5 commodity rate for a commodity rate of \$2.2066. To collect, over seven months, the lost revenue
6 and interest (interest of 8.7 percent, the approved rate of return from the last rate case) due to
7 phasing, Phase Two would add an additional amount of \$0.5109 (\$0.5026 + interest of \$0.0083)
8 per 1,000 gallons. Therefore, the total increase in the commodity rate for Phase Two would be
9 \$1.0135 per 1,000 gallons for a total new commodity rate of \$2.7175 per 1,000 gallons.

10 On May 1, 2009, the commodity rate would be reduced by \$0.5109 per 1,000 gallons for a
11 new commodity rate of \$2.2066 per 1,000 gallons, since all the lost revenue and interest would
12 have been collected at that point.

13 * * * * *

14 Having considered the entire record herein and being fully advised in the premises, the
15 Commission finds, concludes, and orders that:

16 FINDINGS OF FACT

17 1. Pursuant to Decision Nos. 66400 and 66849, the Company seeks an arsenic cost
18 removal mechanism surcharge tariff in this proceeding authorizing a monthly surcharge per
19 customer to aid the Company in its efforts to comply with the Environmental Protection Agency's
20 ("EPA") new arsenic maximum contaminant level of 10 parts per billion ("ppb") which went into
21 effect on January 23, 2006.

22 2. Pursuant to Decision Nos. 66400 and 66849, Arizona Water Company filed the
23 required schedules prior to the implementation of the ACRM.

24 CONCLUSIONS OF LAW

25 1. The Company is a public water service corporation within the meaning of Article
26 XV of the Arizona Constitution and A.R.S. §§ 40-250 and 40-252.

27 2. The Commission has jurisdiction over the Company and of the subject matter of the
28 application.

1 3. Approval of an arsenic cost recovery mechanism is consistent with the
2 Commission's authority under the Arizona Constitution, Arizona ratemaking statutes, and
3 applicable case law.

4 4. It is in the public interest to approve the Company's request for implementation of
5 the ACRM in phases.

6 ORDER

7 IT IS THEREFORE ORDERED that the application by Arizona Water Company's San
8 Manuel Water System for the implementation of the Arsenic Cost Recovery Mechanism is
9 approved as discussed herein.

10 IT IS FURTHER ORDERED that the application by Arizona Water Company's San
11 Manuel Water System for approval of an arsenic cost recovery mechanism surcharge tariff shall be
12 in accordance with the attached Phased in ACRM Schedule DRR-1.

13 IT IS FURTHER ORDERED that Arizona Water Company's San Manuel Water System
14 shall notify its customers, in a form acceptable to Staff, of the arsenic cost recovery surcharge
15 tariff approved herein as follows:

- 16 a. for the March 1, 2008 increase in the monthly minimum, notice shall be provided as
17 soon as possible, but no later than March 30, 2008;
- 18 b. for the October 1, 2008 increase in the commodity rate, notice shall be provided
19 between September 1, 2008 and September 30, 2008;
- 20 c. for the May 1, 2009 decrease in the commodity rate, notice shall be provided between
21 April 1, 2009 and April 30, 2009.

22 IT IS FURTHER ORDERED that Arizona Water Company shall submit, to Docket
23 Control, new tariff pages covering the ACRM for its San Manuel System as follows:

- 24 a. for the March 1, 2008 increase in the monthly minimum, the ACRM tariff page shall be
25 filed as soon as possible, but no later than March 14, 2008;
- 26 b. for the October 1, 2008 increase in the commodity rate, the ACRM tariff page shall be
27 filed between September 1, 2008 and September 15, 2008;
- 28 c. for the May 1, 2009 decrease in the commodity rate, the ACRM tariff page shall be
 filed between April 1, 2009 and April 15, 2009.

1 IT IS FURTHER ORDERED that Arizona Water Company shall file a permanent rate
2 application for its Eastern Group by no later than September 30, 2008, based on a 2007 test year as
3 per Decision No. 66849.

4 IT IS FURTHER ORDERED that in the event that Arizona Water fails to file a new rate
5 case application by September 30, 2008, the Arsenic Cost Recovery Mechanism surcharge then in
6 place shall be automatically discontinued.

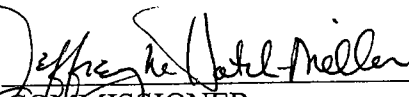
7 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

10
11 
CHAIRMAN




COMMISSIONER

12
13 
COMMISSIONER

COMMISSIONER


COMMISSIONER

14
15 IN WITNESS WHEREOF, I DEAN S. MILLER, Interim
16 Executive Director of the Arizona Corporation Commission,
17 have hereunto, set my hand and caused the official seal of
18 this Commission to be affixed at the Capitol, in the City of
19 Phoenix, this 10th day of March, 2008.

20
21 
DEAN S. MILLER
22 Interim Executive Director

23
24 DISSENT: _____

25
26 DISSENT: _____

27
28 EGJ:DRR:lhmm\CH

1 SERVICE LIST FOR: Arizona Water Company
2 DOCKET NO. W-01445A-02-0619

3 Mr. Robert W. Geake
4 Vice President and General Counsel
5 Arizona Water Company
6 Post Office Box 29006
Phoenix, Arizona 85038-9006

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

7 Mr. Norman D. James
8 Mr. Jay L. Shapiro
9 Fennemore Craig
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012

10 Ms. Kay Bigelow
11 Casa Grande City Attorney's Office
12 510 East Florence Boulevard
Casa Grande, Arizona 85222

13 Mr. Scott S. Wakefield
14 Chief Counsel
15 Residential Utility Consumer Office
1110 West Washington Street, Suite 220
Phoenix, Arizona 85012

16 Mr. Robert Skiba
17 Post Office Box 1057
18 Oracle, Arizona 85623

19 Mr. Thomas H. Campbell
20 Mr. Michael T. Hallam
21 Lewis & Roca, LLP
40 North Central Avenue
Phoenix, Arizona 85004

22 Mr. Philip A. Edlund
23 Vice President
24 Superstition Mountain, LLC
8777 North Gainey Center Drive, Suite 205
Scottsdale, Arizona 85258

25 Mr. Ernest G. Johnson
26 Director, Utilities Division
27 Arizona Corporation Commission
1200 West Washington
28 Phoenix, Arizona 85007

Phased in ACRM Schedule DRR-1

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619
San Manuel Water System

PHASE ONE
No Commodity Charges March 1, 2008 to October 1, 2008

Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

San Manuel	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 1 Commodity Surcharge	TIER ONE			TIER TWO			TIER THREE		
						Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
5/8" x 3/4" Meter	\$ 19.94	1.0	\$ 4.51	\$ 24.45	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
1"	\$ 42.51	2.1	\$ 9.61	\$ 52.12	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
2"	\$ 234.67	11.8	\$ 53.08	\$ 287.75	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
3"	\$ 358.76	18.0	\$ 81.14	\$ 439.90	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
4"	\$ 453.35	22.7	\$ 102.54	\$ 555.89	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
6"	\$ 538.19	27.0	\$ 121.73	\$ 659.92	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
8"	\$ 854.56	42.9	\$ 193.28	\$ 1,047.84	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite
10"	\$ 1,228.50	61.6	\$ 277.86	\$ 1,506.36	\$ -	\$ 1.7040	\$ 1.7040	10,000	\$ 2.1300	\$ 2.1300	25,000	\$ 2.5560	\$ 2.5560	Infinite

ARIZONA WATER COMPANY
DOCKET NO. W-01445A-02-0619
San Manuel Water System

PHASE TWO
Original Commodity Charges plus foregone Revenues from March 1, 2008 to September 31, 2008
From October 1, 2008 to April 30, 2009.

Residential, Commercial, Irrigation, Resale and Miscellaneous Customers

San Manuel	Current Monthly Usage Charge	Monthly Minimum Equivalent	ACRM Monthly Usage Charge	New Monthly Minimum	Step 2 Commodity Surcharge	TIER ONE			TIER TWO			TIER THREE		
						Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit	Old Commodity Rate	New Commodity Rate	Upper Limit
5/8" x 3/4" Meter	\$ 19.94	1.0	\$ 4.51	\$ 24.45	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
1"	\$ 42.51	2.1	\$ 9.61	\$ 52.12	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
2"	\$ 234.67	11.8	\$ 53.08	\$ 287.75	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
3"	\$ 358.76	18.0	\$ 81.14	\$ 439.90	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
4"	\$ 453.35	22.7	\$ 102.54	\$ 555.89	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
6"	\$ 538.19	27.0	\$ 121.73	\$ 659.92	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
8"	\$ 854.56	42.9	\$ 193.28	\$ 1,047.84	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite
10"	\$ 1,228.50	61.6	\$ 277.86	\$ 1,506.36	\$ 1.0135	\$ 1.7040	\$ 2.7175	10,000	\$ 2.1300	\$ 3.1435	25,000	\$ 2.5560	\$ 3.5695	Infinite

